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Report Highlights:

In response to new import restrictions on red meat because of foot and mouth (FMD) and mad cow disease (BSE) in 2001, Russian importers turned toward U.S. poultry meat to fill the gap between supply and demand. Consequently, total imports of poultry are expected to surpass 1.0 million MT this year. Russian consumer demand for poultry meat is expected to continue growing in 2002 and beyond. However, domestic poultry producers and the Government of Russia (GOR) are seeking ways to restrict poultry imports by the use of quotas.

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Executive Summary

Russia has reclaimed its position as the largest export market for U.S. poultry meat, with imports of poultry expected to top 1.0 million MT this year. This growth is largely due to import bans on red meat precipitated by animal disease problems in the EU and other supplying countries. For the same reasons, greater output in the domestic poultry industry is expected in 2001. However, its expansion remains limited by infrastructure problems. Reportedly, the Government of Russia (GOR) is drafting legislation to implement restrictive poultry import quotas in response to claims that imports limit the expansion of the domestic industry. However, recent market research indicates that there are separate and distinct markets for domestic and imported poultry meat, with the majority of consumers indicating a preference for domestic product. Most experts believe that consumer demand for poultry will expand in the near future, so any attempt to restrict imports will likely put pressure on consumer prices.

Production

Poultry meat is the most important source of animal protein in Russia. A ban on EU beef and pork imports during March and April 2001 stimulated demand for domestic poultry meat production, increasing by 40,000 MT. In 2002, Russian output of poultry meat is expected to increase by another 50,000 MT, or 7 percent more than in 2001. The share of poultry in total domestic output of meat products is expected to expand in the near future, as higher market prices have increased the sector's profitability. However, most experts believe that domestic poultry production, estimated at 700,000 MT in 2001, will continue to fall far short of total demand, estimated at 2 million MT.

According to Russian statistics, the first half of 2001 also saw improved egg production compared to the first half of the previous year. Per hen egg production continues to grow and is approaching output of developed countries.

Table 1: Domestic Egg Production, 1996 - 2001

	1996	1997	1998	1999	2000	2001*
Egg production, billion eggs	31.9	32.2	32.7	33.1	33.9	34.2
Per hen egg production	217	234	240	248	262	270

Source: Russian State Statistics Committee

* Estimate – FAS/ Moscow

Better grain harvests since 1998 have benefitted the domestic poultry and livestock industries. The average broiler weight gain per day is improving as a result of better feed supplies and more efficient feed conversion rates. This year, most experts predict that the grain harvest will be the best that the country has seen for many years. Although feed supplies are improving, other challenges restrict the industry from expanding rapidly. For example, providing balanced dietary inputs to increase daily weight gain presents a challenge for increasing the profitability of domestic poultry producers. Furthermore, to increase the competitiveness of the domestic poultry industry, improvements such as better facilities, lighting, heating, feeding, processing, and breeding systems are needed. Since this will require significant investment from large financial and banking institutions,

domestic poultry production is likely to remain far below the level of market demand in the near future.

There are some 150 broiler operations in Russia today, with an average profitability of around 13 percent, according to Russian statistics. About 92 percent of poultry meat and egg producers use local breeds. The most successful poultry enterprises are located in the Leningradskaya, Sverdlovskaya, Vologodskaya, Perskaya, and Kostromskaya regions. In addition, the Republics of Tartarstan, Bashkorstan, Mordoviya, and Krasnodarskii Krai have successful domestic operations.

Table 2: Structure of Meat Production in Russia

Meat Product Sector	2000		2001	
	MT	Percent of Total	MT	Percent of Total
Poultry	660	16	680	17
Beef	1,840	46	1,780	45
Pork	1,500	38	1,515	38
Total	4,000	100	3,975	100

Source: Post Estimate

Table 3: Russian Production of Processed Meat Products (Thousand MT)

Year	1995	1998	1999	2000
Poultry	2,370	1,315	1,113	1,153
Meat, Total	497	363	427	441
Percent of poultry in total meat production	21	28	38	38

Source: Russian State Statistics Committee

The Russian Union of Poultry Producers

A new union of poultry farmers called 'Rosptitsesoyuz' (Russian Poultry Union) has been established in Russia. According to Vladimir Fishinin, advisor to the board of directors, the Russian Poultry Union is dedicated to the development of domestic poultry production and protecting the interests of Russian producers. The Union is supported by the Ministry of Agriculture. It is the first integrated poultry union in Russia, with members representing the entire technical chain of production, from the development of feed to the sale of finished goods.

Consumption

Russia's poultry meat needs are estimated at about 2 million MT annually. In 2001, consumption grew 12 percent as a result of a ban on EU red meat imports causing consumers to turn toward poultry meat. The lower per unit cost for poultry meat as compared with red meat is expected to maintain the high demand for poultry, and experts predict that poultry consumption will continue to grow. According to the Russian Meat Union, within the next few years, poultry will increase from about 34 percent to 40 percent of the total meat consumption in Russia.

A June 2001 cross regional survey of 2000 Russian consumer's purchasing habits, sponsored by the U.S. Poultry and Egg Export Council, compared Russian consumption of poultry with other meats. According to the findings, 91 percent of the respondents bought poultry meat during the previous month. The estimated weighted average of red meat products purchased among all meat, poultry, and fish products during the month was 41 percent (24 percent - raw meat and 17 percent - sausage and meat specialties), 34 percent poultry, and 18 percent fish. Concerning poultry products, because of the ease of preparation and affordability, chicken leg quarters are the most popular item with Russian consumers. Approximately 73 percent of the respondents said that they had bought them during the last month. Poultry seems to be most popular in Moscow, Khabarovsk, and St.Petersburg (100 percent, 96 percent, and 95 percent respectively), i.e. much more vs. the total sample.

Suppose all meat, fish and poultry bought in the last month totals to 100%, how large of a percentage is each product? (Table based on 2000 responses, 200 consumers from each of 10 regions across Russia)

	Total	Moscow	St.Petersburg	Arkhangelsk	Kazan	Krasnoyarsk	Omsk	Perm	Rostov-on-Don	Saratov	Khabarovsk
Meat	24,28	27,16 >	18,12 <	13,89 <	33,69 >	22,66	31,04 >	16,67 <	25,85	33,53 >	20,20 <
Poultry	33,92	38,39 >	34,76	35,79	35,00	36,17	29,48 <	33,03	31,19	28,62 <	36,74
Fish	18,02	13,30 <	17,34	26,63 >	10,78 <	15,13 <	20,21	20,92	20,75	14,34 <	20,84 >
Canned products	6,60	3,51 <	6,84	6,98	7,51	7,84	4,16 <	10,26 >	5,49	7,20	6,26
Sausage and meat specialties	17,18	17,64	22,95 >	16,71	13,03 <	18,21	15,13	19,13	16,73	16,32	15,97
BASE	2000	200	200	200	200	200	200	200	200	200	200

Source: Russian Public Opinion and Market Research (ROMIR)

Trade

Russia has reclaimed its status as the largest foreign market for U.S. poultry meat, with imports expected to surpass 1.0 million MT in 2001. The FMD and BSE bans on meat imports from the EU and some other supplying countries stimulated poultry consumption in Russia, as consumers were forced to substitute for red meat. This also led to increased prices for all meat products. As pork and beef prices increased, meat processors substituted more poultry (the cheapest source of animal protein) in their product mixes to keep production costs down. Consequently, demand for imported poultry meat, including mechanically deboned meat (MDM), rose. According to the United States Poultry and Egg Export Council, demand for poultry grew so quickly that importers and domestic producers had difficulty meeting local needs.

The lower per unit cost for poultry meat compared with red meat and the improving economic situation are expected to maintain a high demand for poultry in 2002. While demand for inexpensive raw material is

recovering due to developments in the Russian meat processing sector, the demand for expensive cuts of meat is expected to recover more slowly. According to the Russian State Statistics Committee, real consumer incomes grew by 4.4 percent during the first half of 2001, while the consumer price index rose 13 percent. As inflation continues to outpace growth in consumer incomes, the demand for inexpensive meat products will remain a dominant factor in the market. Consequently, chicken MDM is expected to represent a larger share of U.S. exports of poultry products to Russia in the future.

Table 4: Frozen Poultry Imports, January - May 2000 and 2001, MT

02.07.14, CHICKEN, FROZEN, CUTS AND OFFAL	2000	2001
January	6,015	17,725
February	10,586	51,178
March	25,785	49,578
April	12,164	48,584
May	53,117	101,911
June	35,269	89,652
TOTAL	107,667	268,976

Source: Russian Customs

Table 5: Poultry Imports, First quarter of 2000 - 2001, By Country

Countries	2000			2001		
	MT	\$1,000	Price \$/MT	MT	\$1,000	Price \$/MT
Total	56,475	42,763	757	251,841	128,069	509
Including						
US	33,346	27,766	832	203,886	101,366	497
France	5,726	4,627	808	9,429	4,993	529
Netherlands	2,782	2,364	850	8,769	4,957	565
Brazil	112	61	545	7,206	4,144	575
Belgium	998	753	760	6,021	3,165	525
Great Britain	900	710	789	6,718	3,537	526
Germany	1,657	1,598	964	5,863	3,446	588
Canada	95	72	757	1,871	1,024	547

Source: Russian State Statistics Committee

Policy

Land Reform

One of the most important issues regarding governmental support for farmers is ownership of land and agricultural holdings. The free sale of land remains a hot issue for debate. In addition, how to resolve debts owed by agricultural producers continues to be a very serious problem. Farming enterprises face accounts payable of about 225 billion rubles. The GOR still has not developed its position on this issue, but is expected to do so in the near future.

Table 6: Poultry Import Tariffs*

Tariff code	Commodity	Tariffs
0207	Poultry meat and offal	25%, but not less than 0.2 Euro per 1 kilo
1602. 201100	Of goose and duck liver	20%, but not less than 0.5 Euro per 1 kilo
1602. 201900	Other	20%, but not less than 0.5 Euro per 1 kilo
1602. 209000	Other	20%, but not less than 0.5 Euro per 1 kilo
1602. 311100	Containing exclusively raw turkey meat	20%, but not less than 0.5 Euro per 1 kilo
1602. 311900	Other	20%, but not less than 0.5 Euro per 1 kilo
1602. 313000	Containing 25% or more meat or offal	20%, but not less than 0.5 Euro per 1 kilo
1602. 319000	Other	20%, but not less than 0.5 Euro per 1 kilo
1602. 321100	Raw, from chicken containing more than 57% of meat or offal	20%, but not less than 0.5 Euro per 1 kilo
1602. 321900	Other	20%, but not less than 0.5 Euro per 1 kilo
1602. 323000	Containing 25% or more but less than 57% of chicken meat or offal	20%, but not less than 0.5 Euro per 1 kilo
1602. 329000	Other	20%, but not less than 0.5 Euro per 1 kilo

1602. 392100	Raw	20%, but not less than 0.5 Euro per 1 kilo
1602. 392900	Other	20%, but not less than 0.5 Euro per 1 kilo
1602. 394000	Containing 25% or more but less than 57% of chicken meat or offal	20%, but not less than 0.5 Euro per 1 kilo
1602. 398000	Other	20%, but not less than 0.5 Euro per 1 kilo

Source: Russian State Custom Committee

*Products under tariff classification 1602 are temporarily valid between January 1, 2001 and the end of September 2001

Poultry Quota

According to Russian press reports, Ministry of Agriculture officials are seeking to introduce tariff rate quotas on imported poultry. Reportedly, the Russian State Duma has drafted a law which subjects beef, pork, and poultry imports to quotas of 280,000 MT, 150,000 MT, and 400,000 MT, respectively. If the legislation is implemented, poultry and red meat imports above the quota would be subjected to duties of 100 and 50 percent of the product value, respectively.

Why Does the GOR Want to Introduce Poultry Quotas?

As Russia attempts to protect its domestic poultry market from imported product, the Ministry of Agriculture has already implemented an anti-dumping investigation against United States poultry, alleging that U.S. exporters lowered product prices to maintain market share following the 1998 economic crisis. According to the Ministry, if poultry meat imports are restricted, domestic production could fill the gap between a lowered import level and the current level of demand. However, according to the Russian Meat Union, the introduction of quotas will create a deficit of raw material for meat processing plants, as Russia is not yet able to substitute completely for imports with its own products. Furthermore, if a poultry quota were implemented, causing domestic prices to rise and contributing to a decline in U.S. export prices, it would be profitable to import out-of-quota meat, such as happened with the introduction of sugar quotas.

Marketing

To maximize their profit margins, more domestic producers are marketing different types of poultry cuts rather than selling the whole bird. Frozen chicken leg quarters are the most popular consumer item. However, chicken parts and whole broilers for soup also present serious competition for chicken leg quarters. Both products are also viewed as convenient and economical (several dishes for a single meal can be prepared with them).

Table 7: Shares of Fresh and Frozen Poultry Consumed By Russians, percentages

	Fresh	Frozen
Chicken	39	61
Turkey	9	91
Duck	78	22
Goose	92	8

Source: Russian Public Opinion and Market Research (ROMIR)

Market research conducted by the Russian Public Opinion and Market Research Agency (ROMIR) indicates that there are distinct and separate markets for frozen and fresh chilled poultry meat. According to this research, most Russian consumers prefer fresh chilled domestic product because it is perceived to be better quality. As a result, domestic poultry meat commands a premium price in the market. However, because price often outranks quality among the most important factors for buying chicken, frozen leg quarters are the most popularly consumed item. The results of the survey indicated that 61 percent of poultry consumers purchase frozen chicken compared to 39 percent who buy fresh chilled chicken.

Prices

During the first half of 2001, prices for meat and poultry climbed significantly compared to the same period in 2000. The traditional summer slowdown in the meat market did not cause prices to drop as expected. For example, retail prices of beef and poultry fell during the summer of 2000, but climbed during the summer of 2001. However, poultry remains an inexpensive source of animal protein for Russian consumers and food processors.

Table 8: Dynamics of Retail Prices for Beef, Poultry, and Fish (Rubles per KG)

	Beef - excluding boneless	Whole chicken	Fish, frozen
June 2000	44.52	42.26	26.20
January 2000	56.09	49.87	29.97
March 2001	60.45	51.06	31.51
June 2001	66.24	56.34	34.75

Source: Prices from Tagovaya Gazeta, June 2001

Contrary to expectations, if the GOR implements a quota restriction on imported poultry, mounting U.S. supplies could lead to a drop in the world price of poultry. Consequently, the domestic price of poultry in Russia may decline because local producers set prices based on the value of imported product. As outlined in table 9 below, local poultry producers have reaped the benefits of recent price increases.

Table 9: Russian Poultry, Meat, and Egg Farmgate Price Indexes, Base = 1995

Commodity	1995	1998	1999	2000
Poultry (live weight)	100	218	415	515
Beef (live weight)	100	204	480	580
Pork (live weight)	100	207	390	484
Eggs (per 1000)	100	175	336	384

Source: Russian State Statistic Committee

However, if tariff rate quotas are implemented, even higher domestic prices could slow consumer demand. At the same time, if the spread between domestic and world prices widens sufficiently, it might still be profitable to import poultry meat out of quota.

PSD Table						
Country:	Russian Federation					
Commodity:	Poultry, Meat, Total					
		2000		2001		2002
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2000		01/2001		01/2002
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	0	0	0	0	0	0
Production	660	660	680	700	0	750
Whole, Imports	40	40	50	60	0	60
Parts, Imports	945	945	985	1150	0	1150
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	985	985	1035	1210	0	1210
TOTAL SUPPLY	1645	1645	1715	1910	0	1960
Whole, Exports	0	1	1	1	0	1
Parts, Exports	2	4	2	6	0	7
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	2	5	3	7	0	8
Human Consumption	1580	1580	1645	1840	0	1890
Other Use, Losses	60	60	67	63	0	62
Total Dom. Consumption	1643	1640	1712	1903	0	1952
TOTAL Use	1645	1645	1715	1910	0	1960
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	1645	1645	1715	1910	0	1960

PSD Table						
Country:	Russian Federation					
Commodity:	Plty, Meat, Chicken -16 wks					
		2000		2001		2002
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2000		01/2001		01/2002
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	0	0	0	0	0	0
Production	380	380	395	430	0	470
Whole, Imports	30	30	30	40	0	40
Parts, Imports	870	870	920	950	0	950
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	900	900	950	990	0	990
TOTAL SUPPLY	1280	1280	1345	1420	0	1460
Whole, Exports	1	1	1	1	0	1
Parts, Exports	4	4	4	6	0	7
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	5	5	5	7	0	8
Human Consumption	1250	1250	1315	1395	0	1432
Other Use, Losses	25	25	25	18	0	20
Total Dom. Consumption	1275	1275	1340	1413	0	1452
TOTAL Use	1280	1280	1345	1420	0	1460
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	1280	1280	1345	1420	0	1460

PSD Table						
Country:	Russian Federation					
Commodity:	Poultry, Meat, Turkey					
		2000		2001		2002
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2000		01/2001		01/2002
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	0	0	0	0	0	0
Production	7	7	7	7	0	7
Whole, Imports	2	3	4	3	0	4
Parts, Imports	40	70	50	75	0	85
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	42	73	54	78	0	89
TOTAL SUPPLY	49	80	61	85	0	96
Whole, Exports	0	0	0	0	0	0
Parts, Exports	0	0	0	0	0	0
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Consumption	48	79	60	84	0	95
Other Use, Losses	1	1	1	1	0	1
Total Dom. Consumption	49	80	61	85	0	96
TOTAL Use	49	80	61	85	0	96
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	49	80	61	85	0	96

PSD Table						
Country:	Russian Federation					
Commodity:	Poultry, Eggs					
		2000		2001		2002
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2000		01/2001		01/2002
Layers	150	140	150	140	0	140
Beginning Stocks	0	0	0	0	0	0
Production	33200	33900	33250	34200	0	34400
Hatch Eggs, Imports	70	70	75	75	0	75
Shell Eggs, Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
Intra EC Imports	0	0	0	0	0	0
TOTAL Imports	70	70	75	75	0	75
TOTAL SUPPLY	33270	33970	33325	34275	0	34475
Hatch Eggs, Exports	50	50	50	50	0	50
Shell Eggs, Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
Intra EC Exports	0	0	0	0	0	0
TOTAL Exports	50	50	50	50	0	50
Hatch Eggs, Consumption	2150	2150	2150	2160	0	2170
Shell Eggs, Human	29770	30400	29820	30650	0	30850
Shell Eggs, OT Use/Loss	1300	1370	1305	1415	0	1405
Other Dom. Consumption	0	0	0	0	0	0
Total Dom. Consumption	33220	33920	33275	34225	0	34425
TOTAL Use	33270	33970	33325	34275	0	34475
Ending Stocks	0	0	0	0	0	
TOTAL DISTRIBUTION	33270	33970	33325	34275	0	34475
Calendar Yr. Imp. from U.S.						